

Message Text

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SUBJECT: AGENDA FOR EC FINANCE COUNCIL MEETING OF DECEMBER 19

REFS: A. EC BRUSSELS 9496

B. EC BRUSSELS 9877

C. EC BRUSSELS 9280

D. LONDON 16057

E. EC BRUSSELS 9807

1. SUMMARY: THE EC COUNCIL (FINANCE) WILL TAKE UP ON DECEMBER 19 SEVERAL PROPOSALS TO IMPROVE THE COORDINATION OF EC MONETARY AND FOREIGN EXCHANGE OPERATIONS. THE COUNCIL WILL ALSO CONSIDER A NEW UNIT OF ACCOUNT BASED ON A BASKET OF EUROPEAN CURRENCIES. THE COMMISSION SEEKS THE COUNCIL'S GUIDANCE ON SEVERAL DRAFT TAX DECREES. THE COMMISSION IS PROPOSING THAT A CONTACT COMMITTEE OF EC CENTRAL BANKERS BE ESTABLISHED. THE COUNCIL IS SCHEDULED TO BEGIN THE FIRST OF A SERIES OF MEETINGS ON INTERNATIONAL RECYCLING MECHANISMS. END SUMMARY.

2. THE "FOURCADE PLANS": AT THE SEPTEMBER COUNCIL
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(FINANCE) MEETING, FRENCH FINANCE MINISTER FOURCADE

PROPOSED A FOUR-POINT PLAN TO RELAUNCH ECONOMIC AND MONETARY UNION. NOW THAT THE FRENCH EC PRESIDENCY IS DRAWING TO A CLOSE, THE COUNCIL WILL REVIEW EACH OF THESE PROPOSALS:

A. EC COMMON BORROWING: THE COUNCIL IS EXPECTED TO ADOPT THE APPLICATION RESOLUTION WHICH WOULD AUTHORIZE THE COMMUNITY TO BEGIN NEGOTIATING A BORROWING. COMMISSION OFFICIALS HOPE TO MAKE A DIRECT PLACEMENT WITH OPEC COUNTRIES AMOUNTING TO \$1-2 BILLION BY MARCH OR APRIL. SHOULD THIS BE SUCCESSFUL, THE COMMISSION WILL LIKELY SEEK THE COUNCIL'S APPROVAL TO EXPAND THE FACILITY.

B. NEW UNIT OF ACCOUNT (U.A.): THE EC MONETARY COMMITTEE'S REPORT TO THE COUNCIL HAS PROPOSED TESTING THE FEASIBILITY OF THREE DIFFERENT U.A.'S FOR ONE YEAR. THE COMMISSION, HOWEVER, SUGGESTS GOING AHEAD WITH A U.A. BASED ON A EUROCURRENCY BASKET. THE CURRENCY WEIGHTS TENTATIVELY WOULD BE: DM, 29.7 PERCENT; POUND, 18.6 PERCENT; FRENCH FRANC, 20.3 PERCENT; LIRA, 13.2 PERCENT; GUILDER, 8.2 PERCENT; BELGIAN FRANC, 6.7 PERCENT; CROWN, 2.8 PERCENT; AND IRISH POUND, 0.8 PERCENT. THIS U.A. MIGHT BE USED FOR THE EUROPEAN DEVELOPMENT FUND (EDF) AND THE NEW EUROPEAN BORROWING FACILITY. COMMISSION OFFICIALS EXPECT AT THIS TIME TO OBTAIN ONLY THE COUNCIL'S OPINION ON THE FEASIBILITY OF THIS PROPOSAL.

C. INCREASED MONETARY COORDINATION: AS REPORTED IN PARA 4, REF. A, THERE IS CONSIDERABLE MEMBER STATE SUPPORT FOR STRENGTHENING THE EUROPEAN MONETARY COOPERATION FUND (FECOM). THE COUNCIL WILL LIKELY BE ASKED TO FORM A COMMITTEE OF EC CENTRAL BANK AND FECOM OFFICIALS TO DISCUSS CONTROL OF BANKING OPERATIONS, ESPECIALLY EUROCURRENCY AND FOREIGN EXCHANGE OPERATIONS.

D. CONCERTED EC FLOATING: RECOGNIZING THAT A LIMITED OFFICIAL USE

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JOINT FLOAT OF EC CURRENCIES IS IMPRACTICAL UNDER CURRENT CIRCUMSTANCES, THE EC MONETARY COMMITTEE HAS, HOWEVER, AS A FIRST STEP SUPPORTED A PROPOSAL TO SMOOTH OUT EC CURRENCY FLUCTUATIONS AGAIN THE DOLLAR (SEE REF. B).

3. CONTACT COMMITTEE ON BANKING REGULATIONS: THE COMMISSION HAS JUST APPROVED A DRAFT UMBRELLA

DIRECTIVE REGARDING COMMON REGULATIONS FOR EC CREDIT INSTITUTIONS. THIS PROPOSAL CALLS FOR, INTER ALIA, SETTING UP A CONTACT COMMITTEE OF EC CENTRAL BANK AND COMMISSION OFFICIALS TO DISCUSS IMPROVED COORDINATION AND CONTROL OF COMMERCIAL BANK OPERATIONS IN THE COMMUNITY. ALTHOUGH COMMISSION OFFICIALS DO NOT EXPECT THE COUNCIL TO ADOPT THE DIRECTIVE FOR AT LEAST A YEAR, THE COUNCIL WILL BE ASKED TO AGREE TO ORGANIZING THE CONTACT COMMITTEE. OFFICIALS EXPLAIN THAT RECENT BANK FAILURES AND UNSTABLE FINANCIAL CONDITIONS MAKE IT URGENT THAT THE EC IMPROVE ITS CONTROL OVER FINANCIAL INSTITUTIONS. THE COMMITTEE'S FIRST TASK WOULD BE TO EXCHANGE INFORMATION AND TO CONSIDER AREAS FOR COMMON ACTION, SUCH AS ADOPTING COMMUNITY-WIDE SOLVENCY RATIOS FOR CREDIT INSTITUTIONS.

4. REVIEW OF TAX PROPOSALS: THE COMMISSION IS SEEKING THE COUNCIL'S GUIDANCE ON SEVERAL PROPOSED TAX DECREES: 1) THE HARMONIZATION OF THE VALUE ADDED TAX (VAT); 2) INTERNATIONAL TAX EVASION AND AVOIDANCE (SEE REF. C); AND 3) THE HARMONIZATION OF SELECTED EXCISE DUTIES. RATHER THAN SEEKING THE COUNCIL'S APPROVAL OF THESE DRAFTS, THE COMMISSION IS JUST ASKING FOR THE COUNCIL'S REACTIONS AND GUIDANCE ON OUTSTANDING PROBLEMS. FOR EXAMPLE, THE FINANCE COMMITTEE HAS REACHED AN IMPASSE ON HOW TO HANDLE THE LARGE NUMBER OF BRITISH AND IRISH "ZERO RATED" VAT ITEMS. THE UK INSISTS ON KEEPING THESE ITEMS AS A PERMANENT FEATURE OF ITS TAX SYSTEM. THE COMMISSION BELIEVES THESE ITEMS MUST BE PHASED OUT IF THE COMMUNITY IS TO HAVE A LIMITED OFFICIAL USE

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UNIFORM TAX BASE. IN VIEW OF THE UK'S STRONG OPPOSITION (SEE REF. D), THE COUNCIL IS NOT LIKELY TO RESOLVE THIS IMPASSE.

7. RECYCLING PROPOSALS: THE COMMISSION HAS PROPOSED THAT THE EC COORDINATE ITS APPROACH TOWARD VARIOUS PROPOSALS TO SET UP INTERNATIONAL RECYCLING MECHANISMS (SEE REF. E). THE COUNCIL IS NOT EXPECTED TO TAKE A POSITION ON SPECIFIC ISSUES AT THIS MEETING BECAUSE THE FINANCE MINISTERS WILL BE CONSIDERING THE VARIOUS PROPOSALS IN MORE DETAIL AT THEIR LONDON MEETING ON JANUARY 7-8. GREENWALD

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